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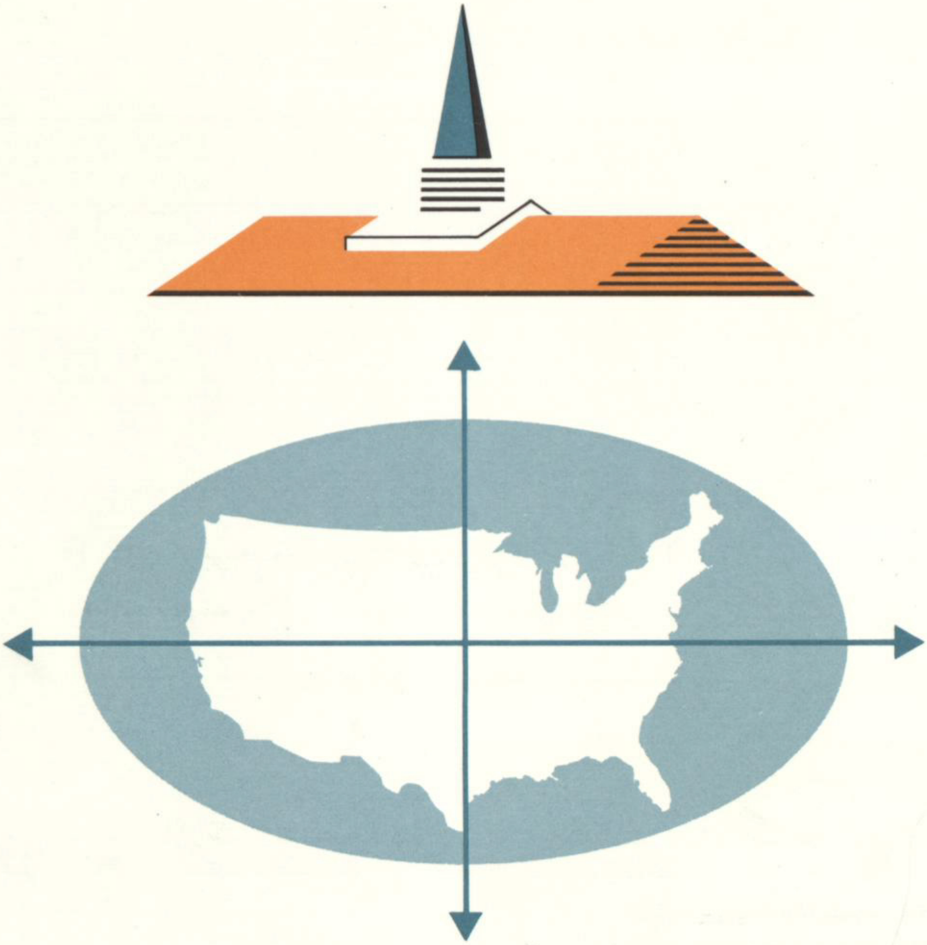
HOWARD JOHNSON COMPANY

1965 ANNUAL REPORT

40th Anniversary



NOW COAST-TO-COAST

HoJo
Cola

Howard Johnson Company

Financial Highlights

	1965	1964
Total Income	$175,530,695	$152,798,451
Income Before Federal Income Taxes	15,954,594	14,078,845
Federal Income Taxes	6,930,000	6,470,000
Net Income	9,024,594	7,608,845
Net Income Per Share (Based on the number of shares outstanding at the end of the year—1964 adjusted to give effect to 1965 stock dividend)	$3.80	$3.24
Depreciation Charges	5,722,862	4,529,683
Additions to Fixed Assets	14,136,364	10,597,514
Working Capital at December 31	17,361,826	12,948,770
Ratio of Current Assets to Current Liabilities at December 31	2.1	2.0

President's Report

In 1965 Howard Johnson's celebrated its 40th Anniversary by realizing the highest total income, and the highest net income in our history.

The Sixties have indeed been good to our Company. The first five years of this decade witnessed a sustained economic expansion unequalled in the history of the United States, and challenged our Company with exceptional opportunities. I am proud to report that we were able to capitalize on these opportunities and keep pace with the national expansion, and for the seventh year in succession we have achieved increases in both total and net income.

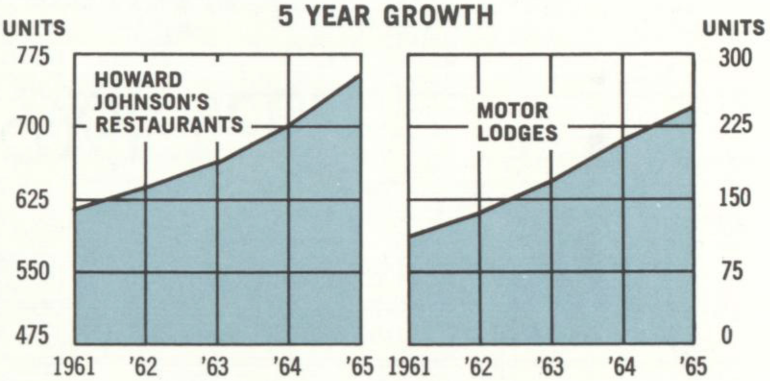
In 1965 total income increased from $152,798,451 to $175,530,695, an improvement of fifteen percent. At the same time net income rose from $7,608,845 to $9,024,594, an increase of nineteen percent. Net income per share was $3.80 in 1965 compared to $3.24 in 1964, adjusted for the 1965 stock dividend.

On February 24, 1966, the Board of Directors declared a 2% stock dividend payable March 31 to stockholders of record March 17, 1966. A similar dividend had been paid for the last three years. It was also proposed that an increase in capitalization, to permit a two-for-one split through the medium of a 100% stock distribution, be voted on by the stockholders at the annual meeting on April 25.

Total additions to fixed assets for all divisions in 1965 amounted to $14,136,364 and it is anticipated that at least this amount will be spent in 1966. Naturally the accelerated growth of our Restaurant Division, the rising volume of our wholesale business, and the broadening of our product lines, all placed heavy demands on our production plants. To cope with these demands and provide for future development, we made substantial improvements, enlargements, and additions to our commissary and warehouse facilities during 1965.

It is particularly noteworthy that despite substantial increases in labor costs and the prices of many of the commodities purchased for our commissaries and restaurants, such as meat, sugar, and butter, we were able to achieve the improvement in net income with only minor increases in selected retail prices. However, increased Social Security rates, the drift toward higher labor costs, as well as the continuing upward trend in raw material prices, will continue to make it difficult for the Company to maintain its profit margins in 1966.

Aside from our earnings performance, one of our outstanding achievements in 1965 was the successful opening of four restaurants and a motor lodge in the Los Angeles area, making the Howard Johnson Company a truly national organization. Our acceptance in California has been most gratifying and we feel that we have firmly established our Company on the West Coast, providing a base for accelerated growth in that area. Other accomplishments and information per-



taining to the activities of the Restaurant, Motor Lodge, Wholesale and Red Coach Grill Divisions are described in detail in the text of the report.

While we were extending activities in well-established operational areas, we were also making important progress in other directions Our newly reorganized Wholesale Division was strengthened by the addition of a number of individuals whose extensive prior experience in this field should contribute measurably to the success of this aspect of our business. We continued to enlarge our product lines, and without question one of the most important additions during the year was our new soft drink — HoJo Cola. I am most excited about the potential of this product and its unlimited possibilities. Currently HoJo Cola syrup is being made and sold by the Company to over 700 Howard Johnson's Restaurants. Test market plans are now in process for the distribution and sale of HoJo Cola in supermarkets and other retail outlets.

In retrospect, the numerous and varied accomplishments of the past year have been truly outstanding. None of them could have been achieved, however, without the dedicated efforts of our more than 17,000 employees. Morale is high. For the second time in two years we were able to announce major improvements in our employees' group, health and life insurance program. The Spotlight Award program which rewards individuals for outstanding service to the public was continued and a special national uniform contest, in conjunction with the House of Dior in New York, contributed toward making Howard Johnson's a friendly place to stop for the entire family.

I would like to emphasize once again our awareness of the importance of sound management to our Company's continuing success. We have developed a highly competent executive team and a strong supporting middle-management group. To stimulate fresh thinking and to meet the ever-increasing demands placed upon our Company, we are constantly adding highly qualified personnel with varying backgrounds to our staff. In addition, we have initiated a program of sending a number of our middle-management personnel to the Harvard Business School each year for 13 to 16 week seminars.

Looking ahead . . . the Board of Directors, management, employees and licensed operators of the Howard Johnson Company all have the highest expectations that 1966 will be another year of growth, and join with me in expressing our appreciation for the continuing interest and support of our more than 10,000 stockholders.

Sincerely,

Howard B Johnson

Howard B. Johnson
President

40th Anniversary

1925-1965

1925-1935

First roadside "stand" . . . to sell Grilled-in-Butter Frankforts and Howard Johnson's "28 Flavors" of Ice Cream

First restaurant . . . a bright, clean place to serve Ice Cream and wholesome food at reasonable prices

First licensed restaurants . . . to take advantage of a growing fame

1935-1945

Expanding years . . . New England — New York — Florida — Mid-West

Red Coach Grills . . . to cater to the "carriage trade"

Industrial feeding during World War II . . . with pleasure driving curtailed, our facilities "went to war"

First turnpike restaurants . . . opportunity realized in Pennsylvania

1945-1955

Pioneer . . . processing, freezing and mass distribution of quality-controlled foods

First licensed motor lodge . . . a new orange roof for an expanding market

Creation of wholesale operation . . . to process food for sale in the retail and grocery markets

1955-1965

The Company "goes public"

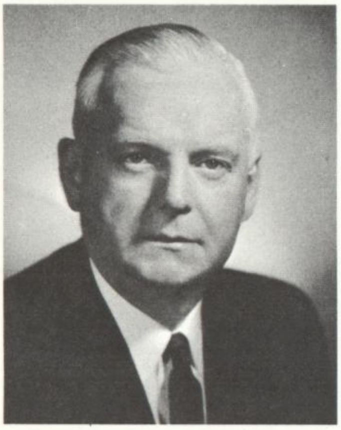
Further Mid-West expansion . . . moving toward California

First high-rise motor lodge . . . New York City

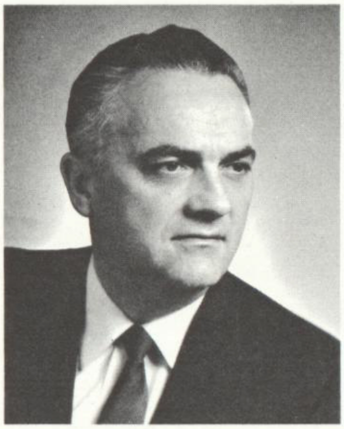
First Company-operated motor lodge . . . Clearwater, Florida

First California restaurants and motor lodge . . . now coast-to-coast

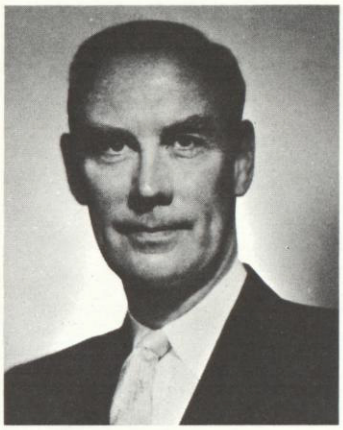
HOWARD P. CUMMINGS
President
Southern Division
Executive Vice President
Wholesale
and Motor Lodge Divisions



EUGENE J. DURGIN
Vice President, Secretary
and General Counsel



PIERRE FRANEY
Vice President
Mid-Atlantic Division and
Executive Chef



WALLACE W. LEE, JR.
Executive Vice President
Motor Lodge Division

ROBERT D. PARKS
Executive Vice President
New England
and
Wholesale Divisions

EXECUTIVE MANAGEMENT COMMITTEE

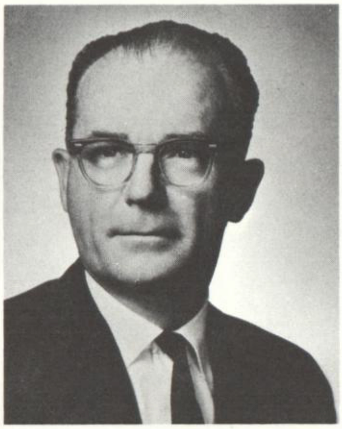
HOWARD B. JOHNSON
Chairman

DONALD G. SHAFTOE
President
Mid-Western Division

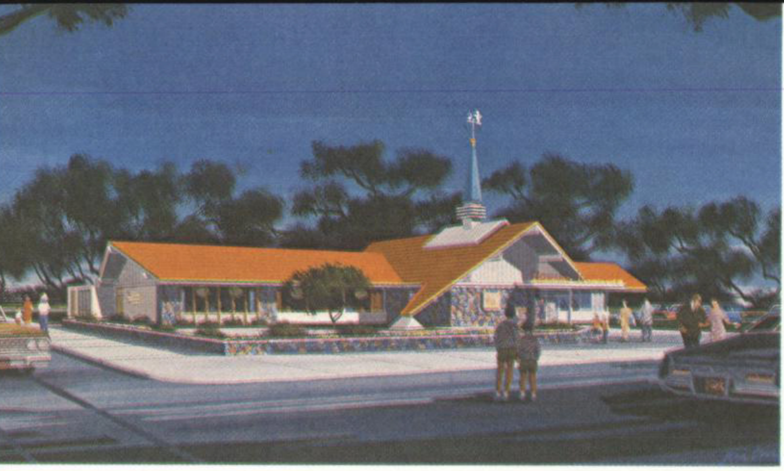
HENRY C. SMITHER
Executive Vice President
Western Division

ARTHUR S. THACHER
Executive Vice President
Red Coach Grill Division

FREDRICH H. THOMFORDE
Executive Vice President
Mid-Atlantic Division



JOHN H. WYLLIE
Vice President and Treasurer

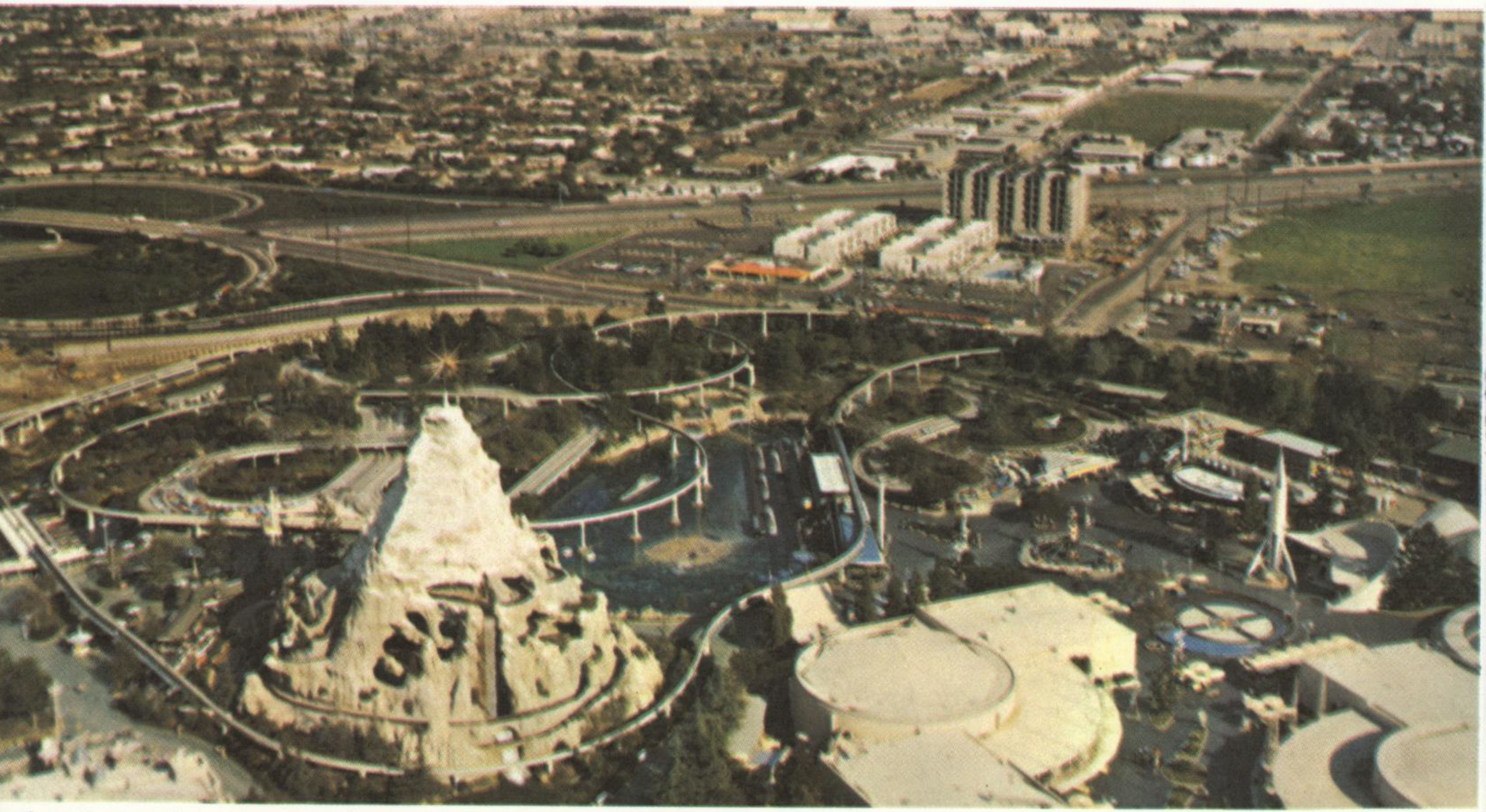


Architectural rendering of "Concept '65" restaurant building.

New conference office of architectural Vice President, Joseph A. Cicco (L).

Drafting room in new architectural offices.

Traditional children's Christmas promotion well accepted in California.



Company-operated restaurant and licensed motor lodge across from Disneyland.

Restaurant Division

At year's end, 750 Howard Johnson's Restaurants were in operation in 36 states, the District of Columbia and Nassau. During the year, 52 new units were opened, including the first four restaurants in California. The proportion of Company-operated to licensee-operated restaurants continued to increase.

Activity in the Restaurant Division is shown below:

	NUMBER OF RESTAURANTS		
	Company-Operated	*Licensee-Operated*	*Total*
December 31, 1964	372	336	708
Opened	47	5	52
Acquired from Licensees	3	(3)	-
Closed	(3)	(7)	(10)
December 31, 1965	419	331	750

At the start of 1966, 46 new restaurants were under construction in 22 states, San Juan, Puerto Rico, and Lucaya Beach, Bahamas — 36 will be Company-operated and 10 operated by licensees. In addition, final documents were executed in 1965 for 61 other locations, construction of which is expected to start in 1966. Of these approved sites, working drawings have already been issued for 21 restaurants. The Western, Mid-Western and Southern Divisions are expected to remain significant growth areas for many years to come.

Under the Company's continuing program of research and development was the opening, on a test basis, of a small, specially-designed prototype unit which features fast service and a limited, low-priced menu. Proposed future units will enlarge the scope of our activities to take advantage of this fast-growing, budget-minded market. Also, the first Lamplighter Grill Room will open on the ground floor in a high-rise Howard Johnson's Motor Lodge in early 1966. This experimental, Company-operated restaurant and cocktail lounge will offer a menu in a price range midway between a Howard Johnson's and a Red Coach Grill menu. A free-standing Howard Johnson's Restaurant is already in operation at this site.

Increased business and a trend toward more leisurely dining patterns resulted in the addition of dining rooms or cocktail lounges to 27 existing restaurants, 15 of them Company-operated and 12 licensed. A total of 83 other units underwent major alterations, additions or refurbishing.

As in 1964, regional cooperative advertising programs, supported by both licensee and Company-operated restaurants, promoted specially-priced menu items to stimulate business in normally slow months. Concentrated local newspaper coverage, radio advertising and impact point-of-sale materials supported these promotions. Competitive regional contests and sales awards tied in with these promotions inspired employees with an esprit de corps. This program will continue in 1966.

One of our most successful standard weekly specials — offered nationally — is the Wednesday Night Fish Fry. The popularity of this promotion is evidenced by continued family support.

Architectural Department

Regional architects are constantly in the field supervising new construction, alterations and additions to existing units. These field representatives insure that Howard Johnson's specifications are followed, and are available for consultation with Company executives and licensees. The department studies and tests new equipment in addition to keeping Howard Johnson's buildings highly efficient and of contemporary design.

During the year, increased activity and expansion of our northern restaurant Architectural Department staff required leasing new and larger quarters in a recently completed office building in Braintree, Massachusetts.

Created for limited use in top-volume locations, was the "Concept '65" building, a further refinement of the designs introduced in 1963 and 1964. This building retains such special features as a more spacious entrance area, improved merchandising facilities, and a gabled entrance to protect guests during inclement weather. Innovations include dining areas on both sides of the dairy bar and total seating for 193 persons. While three "Concept '65" units will be operating early in 1966, this new building is not intended to replace our typical restaurant design.

Interior Design Department

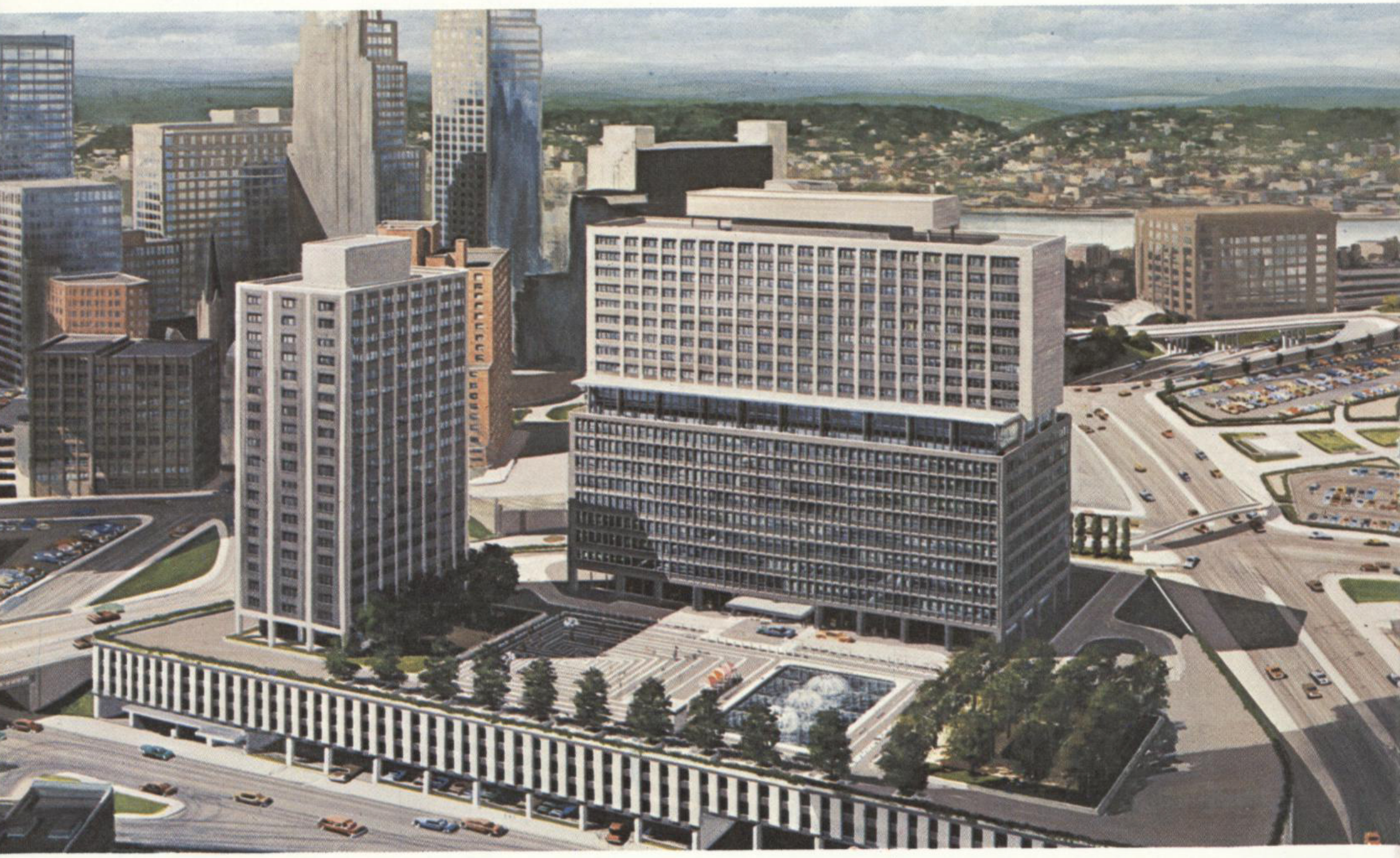
At the new leased architectural office space in Braintree, Massachusetts, a complete Interior Design Department is maintained to service both restaurants and motor lodges. Included in this studio office is a model motor lodge room displaying available color schemes and furnishings. The design staff and regional representatives, who supervise decoration of units, are directed by a Vice President.

A subsidiary was formed to take advantage of the savings possible from direct purchasing of equipment and furnishings for restaurants and motor lodges on a national level.

One of basic color schemes available for motor lodges is discussed by Albert R. Wadsworth (L), Vice President, Interior Design Department and Wallace W. Lee, Jr., Executive Vice President, Motor Lodge Division.

Interior design staff members in new studio office.

Albert R. Wadsworth, Vice President, Interior Design Department, with staff member in conference office.



Chatham Center, Pittsburgh. Howard Johnson's facilities: (right foreground) — motor lodge, upper 10 stories; plaza level — restaurant and Red Coach Grill. Other Chatham Center accommodations: 198-unit apartment (L), indoor garage, office building, 660-seat theatre, service station and bank.

Motor Lodge Division

While lodges of our traditional design continued to open on major highways throughout the country at the rate of one every 10 days, perhaps the most significant trend in this division has been the increased investor interest in high-rise motor lodges in metropolitan areas. In Cleveland a 12-story unit was opened and at year's end 10 new high-rises were under construction: at Indianapolis, Miami Beach, Pittsburgh, Detroit (2), Atlantic City, San Juan (Puerto Rico), Fort Lauderdale, Fredericksburg, Virginia and Anaheim, California. The latter is located in the same 5½ acre complex where a two-level, cabana-type lodge was completed across from the world-famous Disneyland in 1965. In addition to the high-rises, 30 lodges were under construction on December 31.

Activity for the Motor Lodge Division is shown below:

	NUMBER OF MOTOR LODGES		
	Company-Operated	*Licensee-Operated*	*Total*
December 31, 1964	1	209	210
Opened	3	31	34
Acquired from Licensee	1	(1)	—
December 31, 1965	5	239	244

At year's end the 244 Howard Johnson's Motor Lodges offered more than 19,500 rooms to travelers in 33 states and the District of Columbia.

It is of interest that the 200-room motor lodge opened in Cleveland overlooking Lake Erie incorporated three divisions of the Company in one complex. On the top floor, offering a splendid view of the lake, is a Red Coach Grill seating 100 for dining and 55 in the cocktail lounge. On the ground level, a 150-seat, freestanding Howard Johnson's Restaurant is connected to the lodge by an attractive passageway. This restaurant, with its cocktail lounge and the Red Coach Grill, are operated by the Company, while the motor lodge is operated under a license agreement.

In Pittsburgh's new Chatham Center, a complete residential and commercial complex, a 400-room licensed motor lodge will occupy the top 10 floors of a 20-story building. A Howard Johnson's Restaurant and a Red Coach Grill, both Company-operated, will be located at street level. In Detroit's New Center area, a 308-room, 14-story licensed motor lodge will contain a 530-seat theatre which can also be used during weekday mornings and afternoons for business meetings or large conventions.

Under our continuing program to keep pace with modern design, licensees now have a selection of six color schemes affording a colorful variety of drapery materials, carpeting, and bed coverings, all contributing to a warm, hospitable welcome. Howard Johnson's Motor Lodge accommodations offer complete living for the guest. In the standard design, spacious rooms with private balconies or patios provide areas for living as well as sleeping . . . a home away from home. The familiar Howard Johnson's Restaurant completes the services offered to insure the traveler of every convenience.

Sales Development and Training School

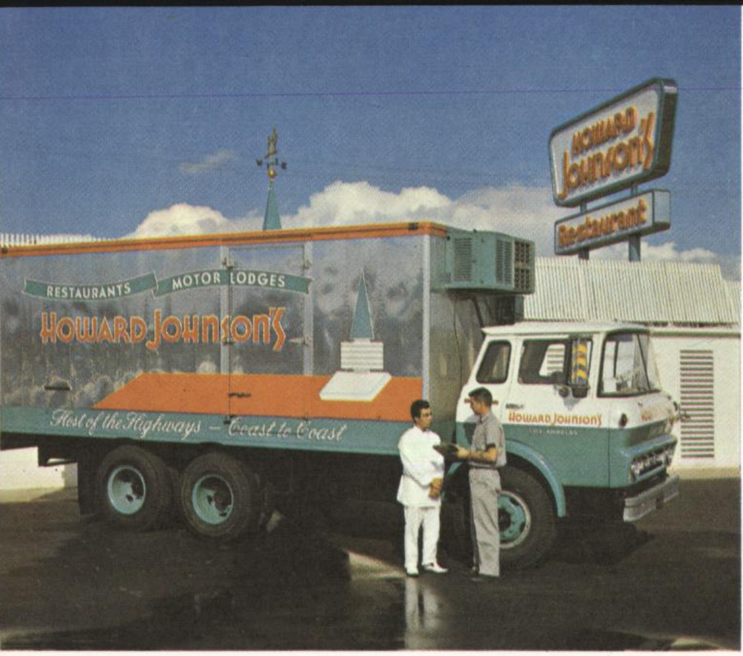
Increasing emphasis on planning and cooperation among motor lodges was evident in 1965. Under a theme of sales development for the individual manager, the Third Annual Managerial Seminar, held in six geographical regions, introduced new sales methods for local promotions during the two-day sessions.

An accelerated Sales Development Program for 1966 was voted at the annual meeting of the licensee operators' National Motor Lodge Council in September, 1965. An increased contribution on a per room basis will supplement the continuing sales promotional program sponsored by the Council on a national level. In addition, the Company will increase its financial support to this program.

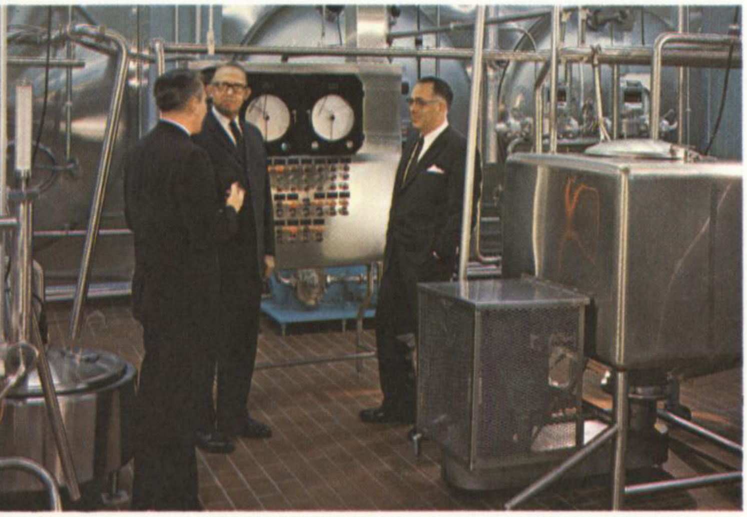
Rapid expansion and the urgency for maintaining Howard Johnson's high standards of quality services for its guests promoted the organization of a Motor Lodge Training School for management. The first session of this intensive, ten-day training course will be held at a motor lodge in Miami in March. Company executives will form the school's faculty and the curriculum will include both classroom and on-the-job indoctrination in Howard Johnson's procedures, standards, policies and management viewpoints.

Rapid Reservation Service

RRS . . . a person-to-person contact between guest and host — compliments of the motor lodge called — introduced as an "industry first" by Howard Johnson's two years ago, resulted in the placing of over 450,000 calls in 1965 . . . averaging nearly 2,000 calls per motor lodge. It appears that this service has not only become a popular convenience for the guests but a profitable addition to our promotional activities. Studies have indicated that RRS service in restaurants can increase motor lodge reservations only when offered in certain strategically-located restaurants.


HOWARD JOHNSON'S
Restaurant
RESTAURANTS
MOTOR LODGES
HOWARD JOHNSON'S
Host of the Highways — Coast to Coast
HOWARD JOHNSON'S

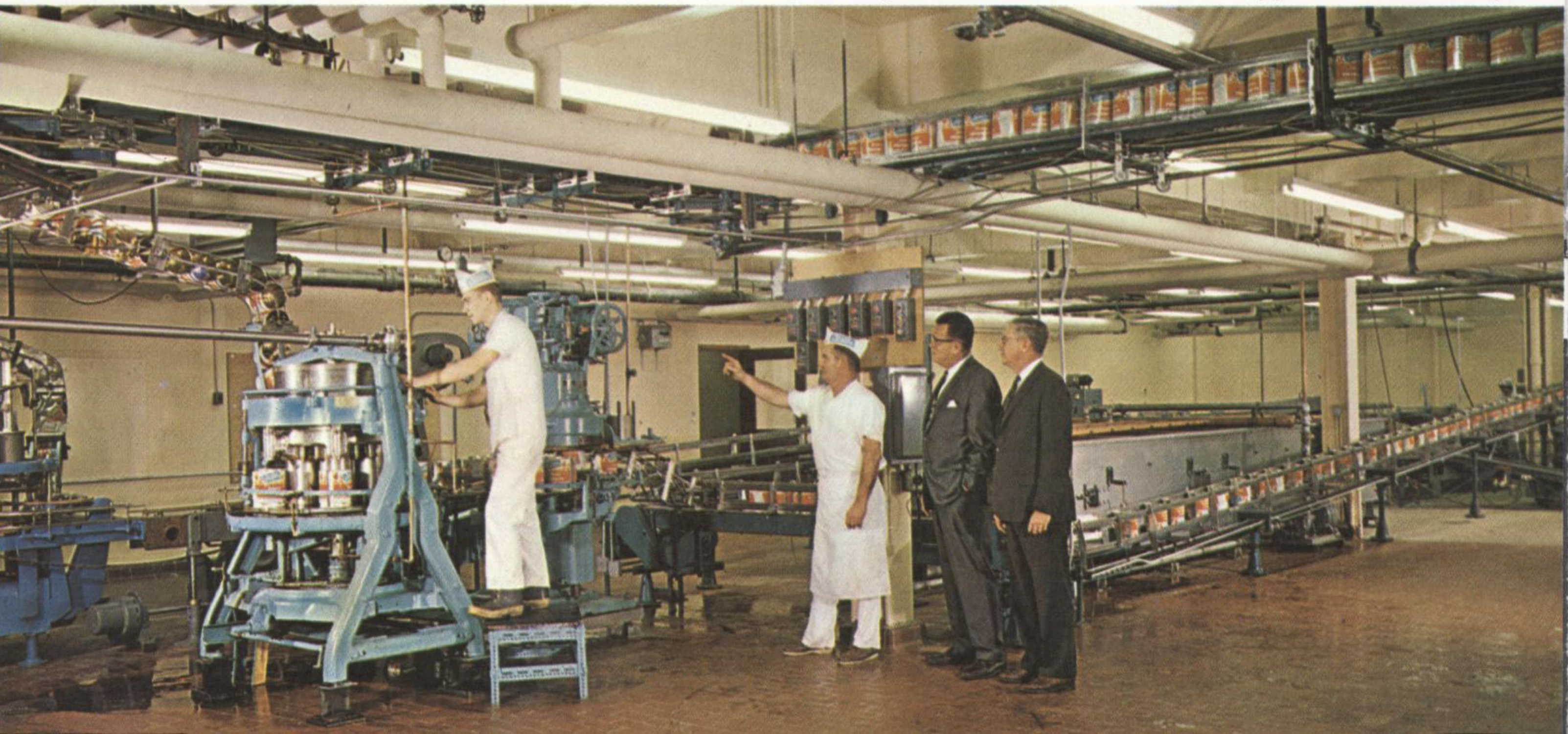
New "orange roof" truck design featured on California-based vehicle.



Plant manager guides Mid-Atlantic Division executive Fredrich H. Thomforde (C) and Charles J. Mayne (R) on inspection tour of new Baltimore Ice Cream facilities.

New Miami Ice Cream plant addition visited by Southern Division executives Howard C. Cummings (R) and Fred Scott.

Part of the addition to the Wollaston, Mass. candy and syrup plant inspected by New England Div. executives Robert D. Parks (L) and Richard D. Muzzy.



Quality products - Processing and Distribution

Ultimately, the success of any restaurant depends upon the quality and value of the food it serves. Profits for Howard Johnson's increase through the efficiency of purchasing, food processing, quality control, standardization and, of great importance in the case of Howard Johnson's, commissary food distribution.

Processing

New equipment, new products, and new methods of reconstituting frozen foods are researched in our test kitchens. Under simulated operating conditions, both the speed of reconstituting various frozen foods and the resulting quality are evaluated.

A "blast" freezer was installed at the Queen's Village commissary decreasing bread roll production costs 25%. Rolls are now produced and frozen, from "dough to bag", in 30 minutes. Bulk packaging is speeded by the use of an electronic counter. Mechanized equipment capable of doubling our Wholesale Division's production and costing about $600,000 will be placed in the addition to our Brockton, Massachusetts plant, now under construction.

Contracts were awarded in 1965 for a $750,000 addition to the candy and syrup plant in Wollaston, Massachusetts, including installation of the latest high-speed filling, cooling, and packing equipment which will step up syrup production capacity 100%. The entire ground floor of the original building will now be used to meet the rapidly increasing demand for Salt Water Taffy, one of our most popular candy items. Annual production of taffy is now over a million pounds.

At Baltimore 6,000 square feet were added to our existing facility at a cost of $200,000 and $170,000 was spent for new refrigeration and processing equipment substantially increasing ice cream production capacity. The Miami Ice Cream plant increased its production capacity 100% with an 8,000 square foot addition to the existing building. Over $120,000 was spent for modern equipment. The "High-Temperature Short-Time" systems, now in operation in these two ice cream plants, permit continuous pasteurization of mix at double the rate of the former method.

Distribution

National distribution costs were reduced last year as more efficient uses of transportation equipment were utilized.

After thorough study of the most economical supply system for the California distribution center, it was determined that until the expansion of the Western Division warrants the establishment of its own commissary, the use of sea and transcontinental contract carrier could reduce costs approximately 45% over other methods of transportation. For shipments from the East Coast processing plants, the same carrier returns to the East Coast with raw materials.

A new containerization program was instituted successfully in the Southern Division during the year. This system permits a complete frozen order to be shipped in one container to a restaurant and held at sub-zero temperatures until personnel can unload without interrupting restaurant service. It is anticipated that this system will soon be extended to other regions.

In Atlanta, Georgia, a 4,920 square foot addition for warehousing dry storage goods was built and 5,848 square feet added to the freezer area — or a combined total of 194,000 cubic feet. This distribution center is now completely palletized and serviced 65 units at the end of the year. The entire commissary system is now palletized for inter-plant deliveries.

A major distribution center which will provide 57,000 square feet (1,300,000 cubic feet) of additional space is now being constructed adjacent to the commissary in Brockton, Massachusetts. From here, all the New England restaurants will be supplied, as well as most of the requirements of the Wholesale Division.

Research and experimentation in the science of cryogenics — a fast-freezing process adaptable to transportation carriers — continue through consultation with experts in this field.

Red Coach Grill Division

This division, composed of 17 restaurants, all Company-operated, again enjoyed a record year in sales and profits. New Red Coach Grills were opened in Cleveland and Philadelphia and their immediate acceptance emphasizes the opportunities for an increasing number of these luxury restaurants throughout the country.

Specializing in choice entrees, Charcoal-broiled prime steer Steaks, and Maine Lobsters, with a selection of fine wines and bonded liquors, Red Coach Grills offer a club-like atmosphere of authentic Colonial decor and cater to the discriminating diner.

The incorporation of a Red Coach Grill into a high-rise Howard Johnson's Motor Lodge in Cleveland proved to be a profitable innovation in 1965. This Red Coach occupies a penthouse position overlooking Lake Erie, and has enjoyed near-capacity business at both luncheon and dinner from the opening day. Similar sales success has been experienced in Philadelphia where the new free-standing Red Coach adjoins a recently-completed office building.

To support the opening of both these new restaurants, Red Coach Grill menus were mailed to local business and professional men and newspaper and radio advertising were used. Unquestionably, our continuing advertising program in national magazines also contributes to Red Coach Grill's popularity. Local advertising was also used during the year to support timely promotions at the individual restaurants.

1966 planning calls for the opening of our largest Red Coach in Pittsburgh's new Chatham Center. Future Red Coach Grills are planned for locations in Atlanta, Georgia; West Haven, Connecticut and Braintree, Massachusetts. The distinctive rustic, red-roofed building with fieldstone and California redwood characterizes the typical Red Coach Grill.

During the past year both the executive staff and operations personnel were increased in this division. As continuing national prosperity dramatically increases the "carriage trade" market, prime locations will continue to be sought in high-income markets and in growing communities near major interstate highways.

Red Coach Grills are located in Boston, Saugus, Hyannis, Wayland, Middleboro, Hingham and Framingham, Massachusetts; Manhattan, Yonkers and Westbury, New York; Wethersfield and Darien, Connecticut; Fort Lauderdale and Miami, Florida; Philadelphia, Pennsylvania; Cleveland, Ohio and Chicago, Illinois.

Philadelphia Red Coach Grill opened in 1965.

Red Coach Grill

Wholesale Division

This division, although still a modest contributor to total Company sales, promises to become an exciting growth area in the immediate years ahead. Sales in 1965 in supermarket and grocery outlets were highly satisfactory.

Products featured in our retail line are: Frozen Entrees — Fried Clams, Macaroni and Cheese, Shrimp Croquettes, Chicken Croquettes, Haddock au Gratin; Ice Cream Line — Ice Cream, Sherbet, Dietetic Ice Cream; Canned Items — New England Clam Chowder, Turkey Giblet Gravy, Brown Beef Gravy, Baked Beans.

In-depth research projects carried out during the year studied the present and potential market for our wholesale products and probed consumer attitudes relating to the Company's total image and its application to the existing products as well as new product possibilities. Dramatic changes in pricing and sales policies and more efficient distribution and wholesale practices were the result of this research. Executive specialists and skilled technicians have been added to the staff. A new advertising agency was retained and new promotional programs undertaken to support accelerated sales goals. Improved package designs have already been created and will be introduced to the consumer in 1966.

New Products

A most significant new product — HoJo Cola — was introduced during the year into more than 700 restaurants. Guest acceptance of this soft drink has been favorable. Retail test-marketing plans for HoJo Cola — the first in a proposed line of beverages — have been formulated and a new advertising agency retained to support its introduction. Our enlarged candy and syrup plant in Wollaston, Massachusetts will handle future syrup production to meet both restaurant and wholesale demands for HoJo beverages.

During the year we started to process and pack our own pork sausage for the entire chain. Today, the Queen's Village, Long Island plant, in addition to processing other special foods, produces both frankforts and sausage for the restaurants.

New ice cream flavors were developed in 1965 to be marketed in 1966 by both the Restaurant and Wholesale Divisions. Such new ice cream flavors create high public interest and assist in the merchandising of this prestige product. In addition, Corn Toastees, Manhattan Clam Chowder, Haddock au Gratin and Ice Milk were introduced in test markets during 1965. Currently plans are being developed to test 10 additional products in 1966.

New package designs for retail products examined by Frank J. Lionette (L), Director of Advertising and Fred A. Hahn, Vice President, Wholesale Division.

Employee Relations

The loyal cooperation and day-by-day effort of all employees have been largely responsible for our rapid and profitable growth. Because the majority of these people are in direct daily contact with our guests, training programs and seminars are continually held to help maintain and improve our service at every level.

The Spotlight Award Program continued in 1965. 301 nominations and 12 awards were made to recognize employees for an extra act of helpfulness that characterizes Howard Johnson's tradition of service to the public. Winners were featured in advertisements in local newspapers and each received a $1,000 Bond.

A national contest, involving ideas for a new Johnson Girl uniform, was held during the year in which girls from over 600 restaurants responded. Winning suggestions were submitted to the House of Christian Dior/New York which created a number of uniform designs. During the contest, vials of Christian Dior perfume and letters from Paris were mailed to more than 10,000 Johnson Girls. Later, 34 individual state winners traveled to New York and selected their preferred uniform design. During their stay, Mr. Johnson drew the names of six Johnson Girls who subsequently traveled to Paris for an exciting eight-day tour. In October, a three-page, full-color ad appeared in *Vogue* Magazine to introduce the new uniform which will be appearing in the restaurants during 1966.

The Company re-evaluated the employee benefit program and announced, effective January 1, 1966, an improved group, health and life insurance program.

The 20th Century world of automation has not relieved our need for qualified personnel. Our industry is a people-to-people business — and a concentrated effort to attract youth into the hospitality industry is imperative. A committee, headed by an Executive Vice President, was formed to set up strategy for an intensive recruiting program designed to interest young men and women in a variety of positions with Howard Johnson's. The Company continued its program of contributions to scholarship funds at schools and colleges offering courses in restaurant management and hotel administration as an added incentive to strengthen students' interest in this industry.

Public Relations

Opportunities to present news of Company activities and developments in the various media increase as the Company grows and assumes greater importance as an industry leader. The Public Relations Department is in contact with metropolitan daily newspapers and suburban weeklies, radio and television stations, business, trade and national consumer magazines. Through single news items, feature stories and interviews, the public was kept informed throughout the year of newsworthy activities of Howard Johnson's.

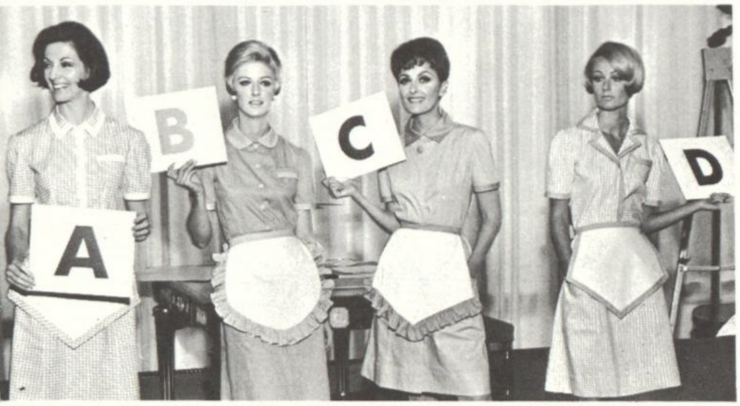
In his position as an active spokesman for the restaurant and motor lodge industry, Mr. Howard B. Johnson was frequently quoted in the press during the past year. Many other Company representatives were interviewed on radio and television, while cooking demonstrations by Red Coach Grill and Howard Johnson's executive chefs, contract signings and groundbreaking ceremonies were presented on the air.

Significantly, more and more restaurant and motor lodge managers, licensee operators and Company executives are taking active roles in local, state and national trade associations. Many served on committees responsible for the determination of industry practices.

The Company continued to assist organizations devoted to the encouragement of travel through the development and distribution of travel guides and pamphlets.

Howard B. Johnson (L) discusses preliminary sketches of new Johnson Girl uniform with the House of Dior/New York designer.

Howard B. Johnson talks informally in New York with state winners of Johnson Girl uniform contest.

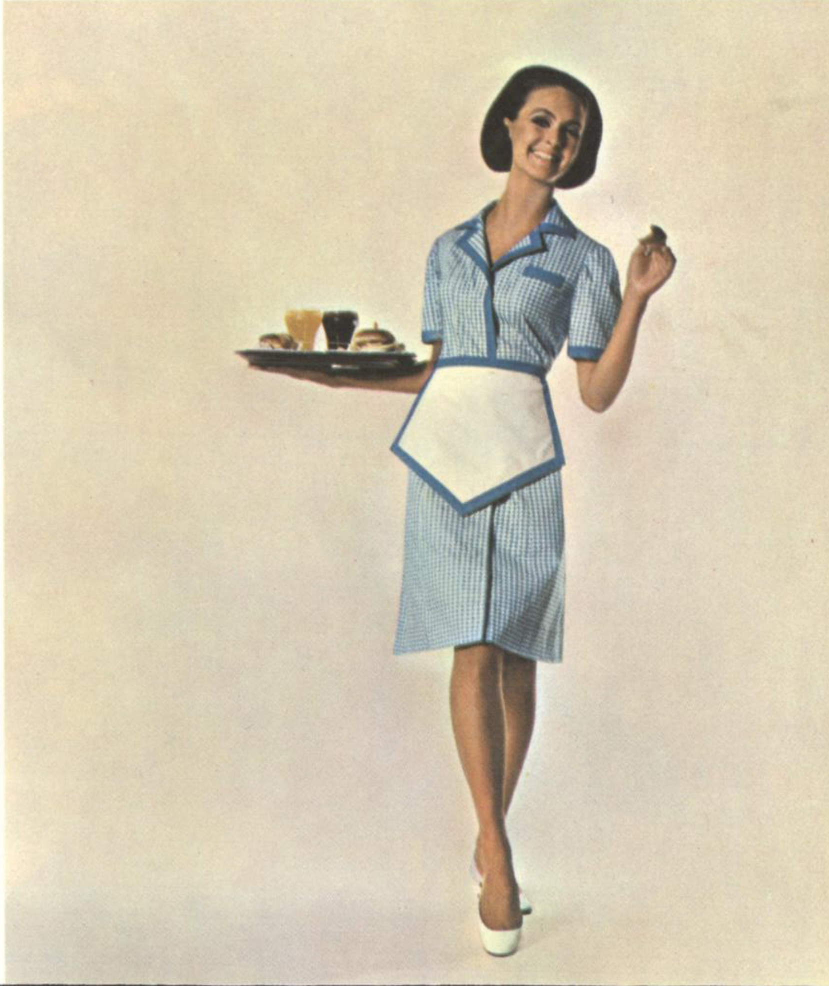


Uniform designs from which winners made their selection.

Bon voyage for finalists — next stop Paris.

Happy Johnson Girls in front of Eiffel Tower.

New look to start appearing in our restaurants during 1966.



Marketing and Advertising

Every day millions of motorists are made aware of Howard Johnson's when they see the familiar orange roof of the restaurants and motor lodges. This "trade mark" forms the basis of all our advertising on billboards and in magazines. During the year, full-page, full-color ads in such popular consumer magazines as *Life, Look, McCall's* and *Ladies Home Journal* illustrated the tempting variety of quality foods and ice cream awaiting all-size appetites "under the orange roof".

Motor lodge accommodations were promoted through full-page, full-color ads in such national consumer magazines as *Sports Illustrated, Time* and *Newsweek,* illustrating the many unique features that make a Howard Johnson's Motor Lodge a more convenient and comfortable place to stay for both businessmen and the entire family.

Other advertising, in prestige business, trade and financial publications, solicited choice new locations and investors for restaurants and motor lodges. In addition, in many major markets, the Howard Johnson's message was aired to millions of listeners during prime radio time.

Once again careful attention was devoted to one of our most effective advertising media — outdoor billboards — designed as a service to the traveler. Selective locations were sought and found, existing billboards were inspected to make sure our high standards were maintained, and attractive new designs were created to direct the public to the restaurants and motor lodges.

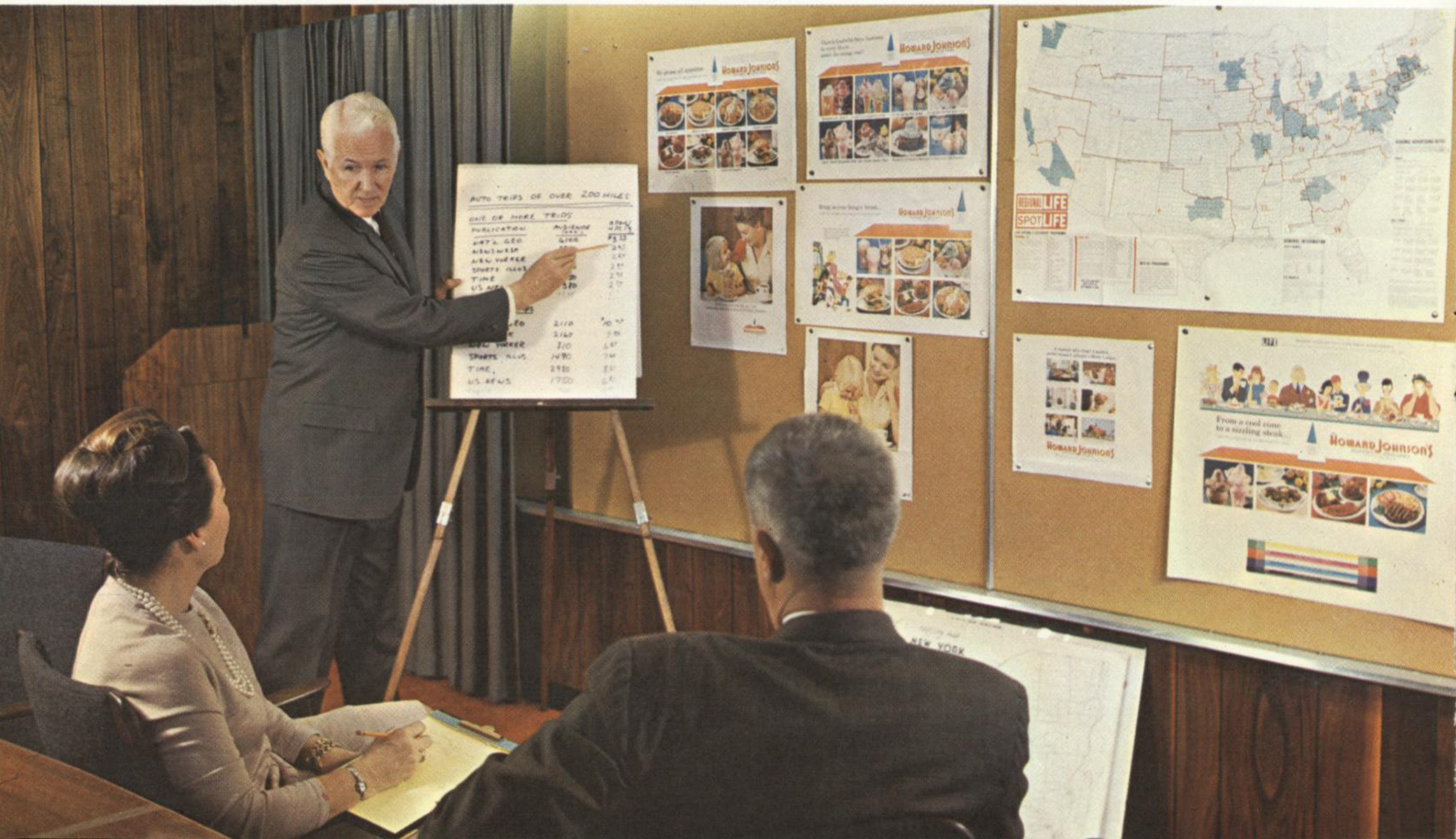
Large, close-up color photographs of such famous house specialties as Charcoal-broiled Steak and Sea-fresh Maine Lobsters were used in advertising the Red Coach Grills in national publications reaching our prime market.

In those areas where our wholesale products have concentrated distribution in supermarkets and grocery stores, small-space, high-frequency newspaper ads were extensively used.

During the year research specialists were retained to study public attitudes toward Howard Johnson's Restaurants and products. Their report indicated opportunities for new marketing methods and new advertising approaches. All 1966 advertising will reflect the result of these studies.

A new Director of Advertising and Marketing joined the Company — his responsibilities include the advertising and marketing for the Restaurant, Motor Lodge and Wholesale Divisions.

Advertising and marketing strategy discussed by George T. McLaughlin, Vice President of Marketing, with staff members.



Executive Management Promotions

MOTOR LODGE DIVISION

WALLACE W. LEE, JR.
Executive Vice President

ROBERT M. JAMES
Vice President and named
Director of Operations

ROBERT A. ALLISON
Assistant Vice President
Operations

WALLACE L. WALDON
Assistant Vice President
Operations

ROBERT E. TURNER
Assistant Vice President
Architecture and Construction

WHOLESALE DIVISION

FRED A. HAHN
Vice President and named
General Manager

NEW ENGLAND DIVISION

RUSSELL C. ALMQUIST
Vice President in charge of
Brockton, Massachusetts Plant

RICHARD D. MUZZY
Vice President
Candy, Syrup and Relish Manufacturing

C. ALBERT COBB
Assistant Vice President
Candy, Syrup and Relish Manufacturing

JOHN M. STUBBERT
Assistant Vice President
Meat Commissary

SOUTHERN DIVISION

LOWRY M. BELL, JR.
Executive Vice President and named
Director of Corporate Development

KENNETH SEXTON
Executive Vice President
Restaurant Operations and
Administrative Ass't. to President

JERRY D. REID
Assistant Vice President
Restaurant Operations

MID-WESTERN DIVISION

DONALD W. CAVANAUGH
Assistant Vice President
Restaurant Operations

SHERMAN H. FIX
Assistant Vice President
Restaurant Operations

MID-WESTERN DIVISION *(continued)*

WILLIAM S. JENKINS
Assistant Vice President
Restaurant Operations

WILLIAM P. O'DONNELL
Assistant Vice President
Restaurant Operations

CHARLES N. PITETTI, JR.
Assistant Vice President
Restaurant Operations

RICHARD R. RUST
Assistant Vice President
Restaurant Operations

CARL TODARO
Assistant Vice President
Restaurant Operations

MID-ATLANTIC DIVISION

CHARLES J. MAYNE
Executive Vice President
Washington District

ROBERT M. HAMILTON
Vice President and named
Director of Quality Control — Ice Cream

AUSTIN T. McNAMARA
Vice President and named General Manager of
Restaurant Operations — Washington District

ALLAN H. BARNES
Assistant Vice President
Restaurant Operations

LAURIE J. JOHNSTONE
Assistant Vice President
Restaurant Operations

HERBERT A. KENYON
Assistant Vice President
Restaurant Operations

BRUCE J. MELI
Assistant Vice President
Restaurant Operations

WESTERN DIVISION

HENRY C. SMITHER
Executive Vice President and named
General Manager

CLARENCE K. DWINELL
Senior Vice President and named
Director of Corporate Development

DONALD O. BENJAMIN
Assistant Vice President
Restaurant Operations

RED COACH GRILL DIVISION

EDWARD C. CALLIS
Vice President
Restaurant Operations

Howard Johnson Company and subsidiaries . . .

assets

	December 31	
	1965	1964
Current assets:		
Cash	$ 9,736,230	$ 6,863,358
U. S. Treasury bills and other short-term securities, at cost (approximate market)	10,188,302	7,970,220
Accounts receivable:		
Trade, less allowance for doubtful balances	2,641,264	2,298,050
Other	296,386	187,772
Inventories of merchandise and materials, at average cost or market whichever lower	10,435,352	8,319,195
Prepaid expenses	397,413	350,908
Total current assets	33,694,947	25,989,503
Fixed assets, at cost (excluding fully-depreciated assets):		
Land and land improvements	5,594,820	5,277,970
Buildings owned	5,890,252	4,767,898
Buildings and improvements on leased property	14,182,138	11,483,728
Restaurant and motor lodge equipment	33,393,776	26,762,887
Plant, office and transportation equipment	8,771,439	7,864,333
	67,832,425	56,156,816
Less — Depreciation	26,862,186	22,901,930
	40,970,239	33,254,886
Other assets:		
Cash surrender value of life insurance policies	208,901	182,542
Miscellaneous	796,264	795,673
	1,005,165	978,215
	$75,670,351	$60,222,604

consolidated balance sheet

liabilities and capital

	December 31	
	1965	1964
Current liabilities:		
Notes payable — portion due within one year (Note B)	$ 2,755,200	$ 1,678,943
Accounts payable	5,292,147	3,935,798
Accrued expenses	2,989,744	2,649,574
Federal income taxes	5,296,030	4,776,418
Total current liabilities	16,333,121	13,040,733
Notes payable — portion due after one year (Note B)	5,512,432	3,292,061
Capital and retained earnings (Note C):		
Common stock, par value $1 per share:		
Authorized — 3,250,000 shares		
Issued — 1,809,125 shares in 1965, 1,131,323 in 1964	1,809,125	1,131,323
Common stock B, par value $1 per share:		
Authorized — 859,944 shares in 1965, 1,477,000 in 1964		
Issued — 566,585 shares in 1965, 1,172,531 in 1964	566,585	1,172,531
Capital surplus (Note D)	9,402,414	4,919,982
Retained earnings	42,046,674	36,665,974
	53,824,798	43,889,810
Lease commitments (Note E)		
	$75,670,351	$60,222,604

Howard Johnson Company and subsidiaries . . .

consolidated statement of income and retained earnings

	Year ended December 31	
	1965	1964
Income:		
Net sales	$170,123,647	$148,614,464
Licensing and other income	4,766,469	3,812,802
Gain on disposals of fixed assets	640,579	371,185
Total income	175,530,695	152,798,451
Costs and expenses:		
Cost of sales and manufacturing, warehousing and transportation expenses, excluding depreciation	74,031,309	64,677,018
Selling, restaurant and motor lodge operating, administrative and general expenses, excluding depreciation	79,536,886	69,290,799
Depreciation of fixed assets	5,722,862	4,529,683
Interest	285,044	222,106
Total costs and expenses	159,576,101	138,719,606
Income before federal income taxes	15,954,594	14,078,845
Provision for federal income taxes, less investment tax credit of $535,000 ($450,000 in 1964)	6,930,000	6,470,000
Net income	9,024,594	7,608,845
Retained earnings at beginning of year	36,665,974	31,668,623
Market value of 35,062 shares of common stock (21,965 shares in 1964) and 11,110 shares of common stock B (22,991 shares in 1964) issued as 2% stock dividends	(3,643,894)	(2,611,494)
Retained earnings at end of year	$ 42,046,674	$ 36,665,974

opinion of independent accountants

To the Board of Directors and Stockholders of Howard Johnson Company

In our opinion, the accompanying balance sheet, the related statement of income and retained earnings and the statement of source and application of funds present fairly the consolidated financial position of Howard Johnson Company and subsidiaries at December 31, 1965, the results of their operations and the supplementary information on funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

Boston, Massachusetts
February 23, 1966

notes to financial statements

Note A — Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Howard Johnson Company and its subsidiaries, all of which are wholly owned.

Note B — Notes Payable

At December 31, 1965, the companies were obligated under notes payable summarized as follows:

	Portion due	
	Within one year	After one year
Notes payable to banks, 4½% to 5%, unsecured	$2,233,328	$2,970,839
Real estate and chattel mortgages, mostly at 4½% to 6%	362,412	2,203,790
Other	159,460	337,803
Totals	$2,755,200	$5,512,432

The aggregate amounts which mature in each of the years 1966 to 1970, inclusive, for the indebtedness summarized above are $2,755,200, $2,455,619, $1,680,872, $289,721, and $225,253, respectively.

Note C — Capital Stock and Stock Options

The two classes of common stock of Howard Johnson Company are subject to certain rights and restrictions as to dividends, voting, conversion, etc. Dividend rights and restrictions provide that dividends other than in shares of the Company's common stock or common stock B may be declared and paid on common stock without similar declarations and payments on the common stock B. If a dividend is declared and paid on common stock B, a dividend of the same kind and at no lesser rate per share must be declared and paid on the common stock. All or part of the outstanding shares of common stock B may be converted into shares of common stock, on a share for share basis, by the affirmative vote of the holders of a majority of the outstanding shares of common stock B. In March 1965, 617,056 shares of common stock B were converted into an equal number of shares of common stock, and the authorized number of shares of common stock B was correspondingly reduced. Of the 1,440,875 authorized and unissued shares of common stock as at December 31, 1965, 566,585 shares were reserved for the conversion of the issued shares of common stock B and 91,601 shares were reserved for the stock options referred to in the following paragraphs.

At the beginning of 1965 options to purchase 76,221 shares of the Company's common stock were held by executives and key employees of the Company and its subsidiaries. During 1965 options for 25,684 shares were exercised, additional options were granted to purchase 15,750 shares, and options for 612 shares lapsed.

At the end of 1965 options for 67,272 shares were outstanding as follows (shares and prices adjusted, where necessary, to give effect to the 2% stock dividend paid during 1965):

Year of grant	Year of expiration	Option price per share	Total shares under options outstanding at December 31, 1965
1961	1968	$34.02 — $34.13	34,274
1964	1969	57.24 — 65.45	17,405
1965	1970	76.25 — 81.87	15,593
			67,272

Options to purchase 40,539 shares were exercisable at December 31, 1965, representing all of the outstanding options granted in 1961 and 6,265 of the outstanding options granted in 1964. One half of the remaining outstanding options granted in 1964 become exercisable in each of the years 1966 and 1967. As to the options granted in 1965, options for 40% of the optioned shares may be exercised after one year from the date granted, an additional 30% after two years and the remainder after three years.

Under the terms of the plan, as amended in 1964, additional options for 24,329 shares may be granted at prices no less than 100% of the fair market value of the common stock at the date of grant.

Note D — Capital Surplus

Capital surplus increased during the year by $3,597,722 representing the excess of the market value over the par value of 46,172 shares of capital stock issued as stock dividends, and by $884,710 representing the excess of the proceeds over the par value of 25,684 shares issued for stock options exercised during the year.

Note E — Lease Commitments

At December 31, 1965 several of the companies were directly obligated under long-term leases, most of which expire in various years to 1985. The aggregate of the minimum annual rentals under these leases (exclusive of taxes, insurance and other expenses to be paid by the lessee) is approximately $6,340,000. The aggregate amount of all rentals charged to income in 1965 was approximately $12,850,000, including, in addition to rentals of the nature described above, real estate rentals based on a percentage of sales and rentals of real estate, trucks and equipment under short-term lease arrangements.

Several of the companies were also contingently obligated under leases, most of which expire in various years to 1985, relating to properties occupied by interests other than the companies included in the consolidated financial statements. The aggregate of the minimum annual rentals under these leases is approximately $760,000.

consolidated statement of source and application of funds year ended December 31, 1965

Source of funds:	
Operations:	
Net income	$ 9,024,594
Depreciation of fixed assets	5,722,862
Gain on disposals of fixed assets, etc.	(667,529)
Total from operations	14,079,927
Proceeds from disposals of fixed assets	1,338,728
Increase in noncurrent notes payable	2,220,371
Proceeds from exercise of options under employee stock option plan	910,394
	18,549,420
Application — Additions to fixed assets	14,136,364
Difference, representing increase in working capital	$ 4,413,056

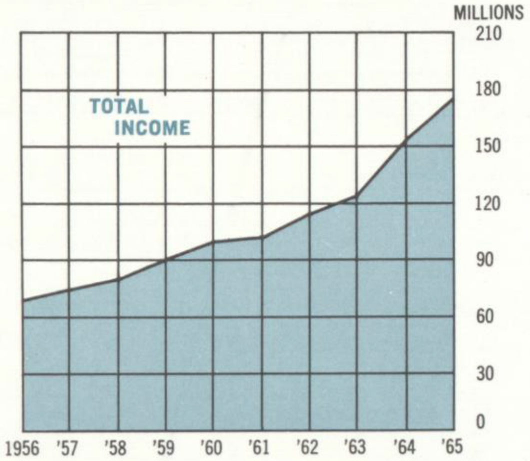
Howard Johnson Company and subsidiaries

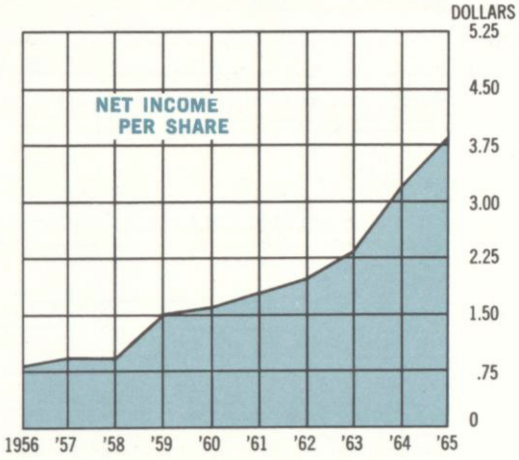
10 years of progress

	1965	1964	1963
Income:			
Net sales	$170,123,647	$148,614,464	$124,315,532
Licensing and other income*	4,766,469	3,812,802	2,650,034
Gain on disposals of fixed assets	640,579	371,185	140,006
Total income	175,530,695	152,798,451	127,105,572
Costs and expenses:			
Cost of sales and manufacturing, warehousing and transportation expenses, excluding depreciation	74,031,309	64,677,018	55,392,571
Selling, restaurant and motor lodge operating, administrative and general expenses, excluding depreciation	79,536,886	69,290,799	57,131,479
Depreciation of fixed assets	5,722,862	4,529,683	3,514,826
Interest	285,044	222,106	124,878
Cash dividends paid on, and premiums on retirement of, preferred stock of a subsidiary	—	—	—
Total costs and expenses	159,576,101	138,719,606	116,163,754
Income before federal income taxes	15,954,594	14,078,845	10,941,818
Provision for federal income taxes	6,930,000	6,470,000	5,550,000
Net income	$ 9,024,594	$ 7,608,845	$ 5,391,818
Net income per share**	$3.80	$3.24	$2.31

*Licensing and other income for the year 1964 includes $312,000 relating to an item of nonrecurring income.

**Net income per share based on the number of shares outstanding at the end of the year, adjusted for subsequent stock dividends.





Year ended December 31

1962	1961	1960	1959	1958	1957	1956
$111,106,275	$100,541,522	$95,006,944	$89,282,634	$79,661,952	$72,995,014	$66,217,949
2,290,476	1,702,852	1,504,900	998,626	770,487	506,831	432,530
79,741	137,245	287,111	14,842	160,514	495,681	53,197
113,476,492	102,381,619	96,798,955	90,296,102	80,592,953	73,997,526	66,703,676
51,458,645	46,844,631	44,526,255	42,120,387	38,827,022	36,004,499	33,134,264
49,754,411	44,301,184	42,021,766	38,228,645	34,517,361	31,069,434	27,694,617
3,069,472	2,825,973	2,622,722	2,422,542	2,305,577	2,192,597	1,947,516
160,306	196,816	223,219	228,661	278,424	256,300	217,644
—	—	21,445	13,244	17,010	14,480	15,620
104,442,834	94,168,604	89,415,407	83,013,479	75,945,394	69,537,310	63,009,661
9,033,658	8,213,015	7,383,548	7,282,623	4,647,559	4,460,216	3,694,015
4,430,000	4,120,000	3,655,539	3,701,438	2,332,090	2,137,523	1,836,805
$ 4,603,658	$ 4,093,015	$ 3,728,009	$ 3,581,185	$ 2,315,469	$ 2,322,693	$ 1,857,210
$1.97	$1.75	$1.60	$1.53	$.99	$.99	$.80

Howard Johnson Company

Directors

Howard B. Johnson, President
Eugene J. Durgin, Vice President and Secretary
Charles M. Enders, Partner of F. S. Moseley & Co., New York, New York
William J. Martin, Chairman of the Board — South Shore National Bank, Quincy, Massachusetts
Fred Smith, Consultant — Office of the Rockefeller Family and Associates

Executive Officers

Howard B. Johnson*
President
Eugene J. Durgin*
Vice President, Secretary and General Counsel
John H. Wyllie*
Vice President and Treasurer
Pierre Franey*
Vice President and Executive Chef
Fredrich H. Thomforde*
Vice President in Charge of a Division
J. William Weeks
Vice President
Americo Imperiali
Vice President in Charge of the N. Y. Food Commissary
Merlin A. Perkins
Assistant Treasurer and Controller
Joseph V. Cronin
Assistant Secretary

Subsidiary Officers

MID-ATLANTIC DIVISION

Fredrich H. Thomforde*
Executive Vice President
Pierre Franey*
Vice President
Charles J. Mayne
Vice President
Charles J. Percival
Vice President
Richard D. Graham
Vice President
Americo Imperiali
Vice President
Herman S. Faust
Vice President
Donald T. Raleigh
Vice President
Robert M. Hamilton
Vice President
Austin T. McNamara
Vice President
John W. McCormick
Asst. Vice President
Allan H. Barnes
Asst. Vice President
Laurie J. Johnstone
Asst. Vice President
Herbert A. Kenyon
Asst. Vice President
Bruce J. Meli
Asst. Vice President
J. Paul Crawford
Vice President & Treasurer
Fred W. Scott
Vice President
Richard C. Myers
Vice President
Irving D. Zalk
Vice President
Harold K. Gotthelf
Vice President
Joseph L. Delaney
Asst. Vice President
Jerry D. Reid
Asst. Vice President
Arthur F. Payne
Controller

SOUTHERN DIVISION

Howard P. Cummings*
President
Kenneth Sexton
Executive Vice President
Lowry M. Bell, Jr.
Executive Vice President

WESTERN DIVISION

Henry C. Smither*
Executive Vice President
Clarence K. Dwinell
Senior Vice President
Herbert T. Webster
Vice President
Donald O. Benjamin
Asst. Vice President

RED COACH GRILL DIVISION

Arthur S. Thacher*
Executive Vice President
Charles R. Goodale
Vice President
Edward C. Callis
Vice President
John H. Trefry, Jr.
Asst. Treasurer

MID-WESTERN DIVISION

Donald G. Shaftoe*
President
Francis M. Barrett
Vice President
Arthur B. Kroog
Vice President
Charles A. Hommel
Vice President
Alvah J. Potts
Vice President
Charles N. Pitetti, Jr.
Asst. Vice President
Donald W. Cavanaugh
Asst. Vice President
Sherman H. Fix
Asst. Vice President
William S. Jenkins
Asst. Vice President
William P. O'Donnell
Asst. Vice President
Richard R. Rust
Asst. Vice President
Carl Todaro
Asst. Vice President
Robert E. Turner
Asst. Vice President
Wallace L. Waldon
Asst. Vice President

MOTOR LODGE DIVISION

Howard P. Cummings*
Executive Vice President
Wallace W. Lee, Jr.*
Executive Vice President
Lowry M. Bell, Jr.
Vice President
Albert R. Wadsworth
Vice President
Robert M. James
Vice President
Robert A. Allison
Asst. Vice President

NEW ENGLAND DIVISION

Robert D. Parks*
Executive Vice President
William P. Pendergast
Vice President
Joseph A. Cicco
Vice President
George T. McLaughlin
Vice President
Montrose P. McArdle
Vice President
Raymond W. Smith
Vice President
Russell T. Warmington
Vice President
Richard V. Wakeman
Vice President
Albert R. Wadsworth
Vice President
Richard D. Muzzy
Vice President
Russell C. Almquist
Vice President
C. Albert Cobb
Asst. Vice President
John M. Stubbert
Asst. Vice President

WHOLESALE DIVISION

Howard P. Cummings*
Executive Vice President
Robert D. Parks*
Executive Vice President
Fred A. Hahn
Vice President
Ralph A. Jenkins, Jr.
Vice President

**Members of the Executive Management Committee*

COUNSEL

Herrick, Smith, Donald, Farley & Ketchum
Boston, Massachusetts

AUDITORS

Price Waterhouse & Co., Boston, Massachusetts

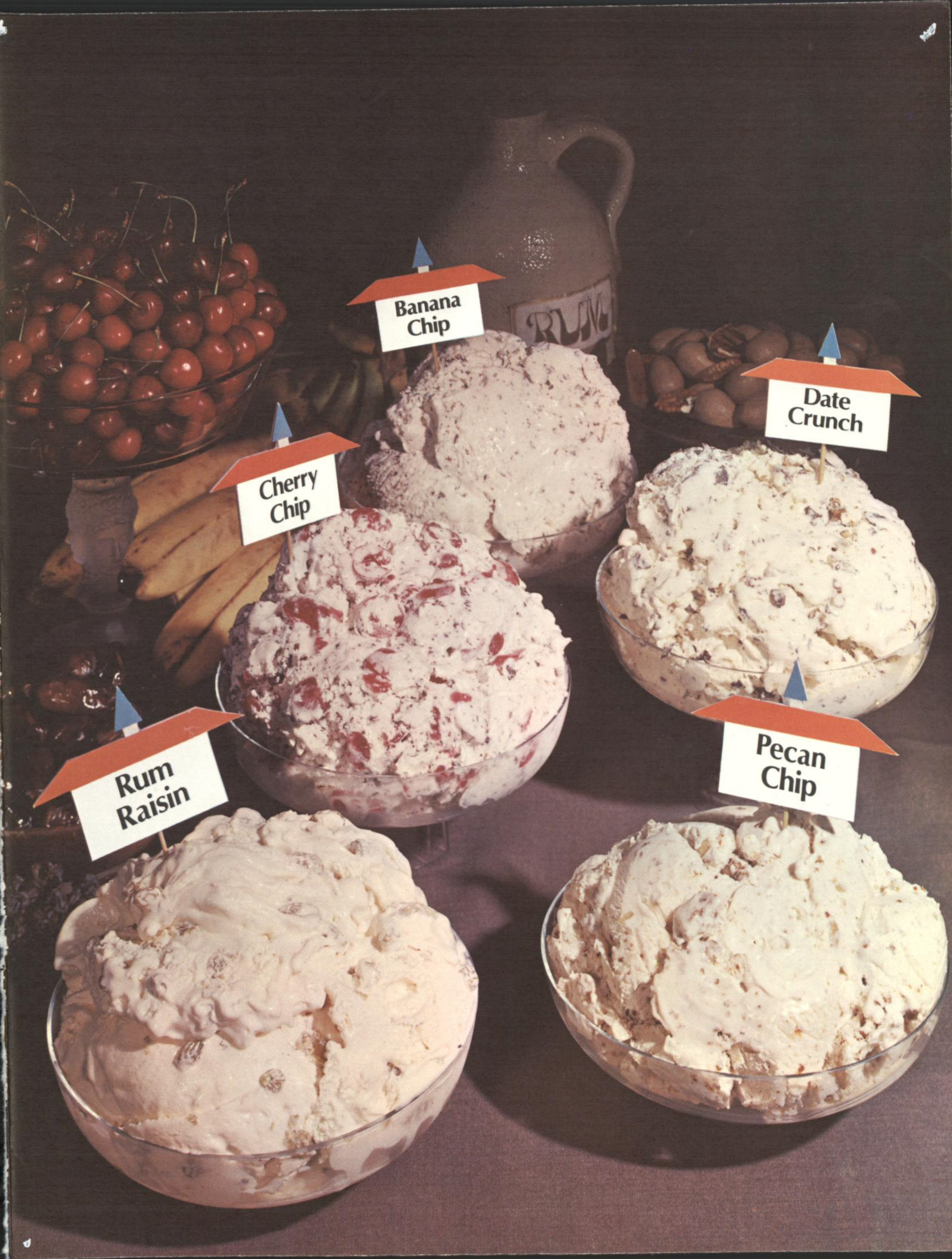
TRANSFER AGENTS

Old Colony Trust Company, Boston, Massachusetts
The Chase Manhattan Bank, New York, New York

REGISTRARS

The First National Bank of Boston, Boston, Massachusetts
Manufacturers Hanover Trust Company, New York, New York

The annual meeting of stockholders will take place at 11:00 A.M. (E.D.S.T.) Monday, April 25, 1966 at the Howard Johnson Company offices, 89 Beale Street, Wollaston, Massachusetts.


Banana Chip
RUM
Date Crunch
Cherry Chip
Rum Raisin
Pecan Chip

Howard Johnson Company

89 Beale Street, Wollaston, Massachusetts 02170

Other Offices

45 Rockefeller Plaza, New York, New York 10020
95-25 Queens Boulevard, Rego Park, New York 11374
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2025 East 107th Street, Cleveland, Ohio 44106
3440 Wilshire Boulevard, Los Angeles, California 90005

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